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Bache & Co.



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Bache & Co. Incorporated

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From its inception as a small investment firm in 1879, Bache has experienced a pattern of steady growth and expansion, successfully overcoming the many crises that have faced the American financial community throughout the last 90 years.

In many respects, Bache's progress during this period not only typifies the evolution of today's large brokerage firms, but reflects the basic history of Wall Street itself.

Only 30 years ago, Bache had approximately \$4 million in capital and about 40 branch offices, but when the firm incorporated in 1965 its capital had risen to more than \$40 million, and its branch system included 97 offices all over the world.

Being among the first investment firms to recognize that permanency of capital should be available to members of the securities industry, Bache became a publicly held corporation in 1971.

With this step, Bache considerably enhanced its operating capabilities, having acquired a large, permanent capital base with which to support greater physical and human resources. Moreover, the firm increased its ability to plan on a long-term basis, and to manage its overall affairs more effectively.

Drawing from nearly 100 years of experience, Bache today is meeting the challenges of the '70s as one of the country's largest investment firms with the latest facilities and equipment and a highly skilled professional staff.

The firm's capabilities are reflected in its being, in terms of percentage of shares traded on the New York Stock Exchange and American Stock Exchange, the second largest firm in the securities industry dealing primarily with retail customers. Bache's permanent equity capital now stands at close to \$100 million, one of the strongest capital positions in the investment community.

To accommodate continuing growth and to provide modern and efficient service, larger home office facilities became necessary, and the company is now headquartered in the Bache Building in New York's financial district. The Bache Building is unique in the industry, and a model of contemporary efficiency.

Occupying some 420,000 square feet of space, Bache enjoys a streamlined plant in which the firm's various departments work in close cooperation to provide clients a broad range of fully integrated brokerage and investment banking services.

The ability to serve investors of all types throughout the world is provided for by a far-flung branch network comprised of more than 90 offices in the United States and Canada and 12 in Europe and Asia.

The distribution and marketing powers inherent in this global branch office system represent a major characteristic of Bache's position as a leading investment institution. The broad geographical reach allows the firm access to all major securities markets in the United States and abroad, which is very important to Bache's marketing efforts on behalf of individual, institutional and corporate clients.

Widespread communications channels also enable Bache to provide a continuous flow of up-to-date financial information and investment counsel to all clients, including the thousands of small investors served by the firm.

The Bache system is staffed by approximately 5,500 employees, including 1,800 registered representatives. All key personnel are carefully selected and trained in order to serve the firm and its clients to best advantage.

To maintain effective controls and supervision, the firm's branches and operations are systematically examined by an internal audit department. A large legal staff provides internal counsel on legal affairs.

Bache's complex accounting function is served by various departments employing a large number of professional accountants. A financial management department closely follows the performance of Bache's component parts, and is also charged with the responsibility for the organization's budgets.

To accommodate the firm's large volume, a major portion of the order-handling systems are fully automated. The home office uses one of the industry's largest banks of high-speed computers, including two Univac computers and a wide range of other sophisticated equipment.

During the past year, these systems enabled Bache to process over 2.2 million separate transactions with a total dollar value of more than \$13 billion.

Combining a strong capital position with professional management, a skilled staff, advanced technical resources and extensive distribution channels offering a wide range of diversified financial services, Bache has entered an era of new opportunities.

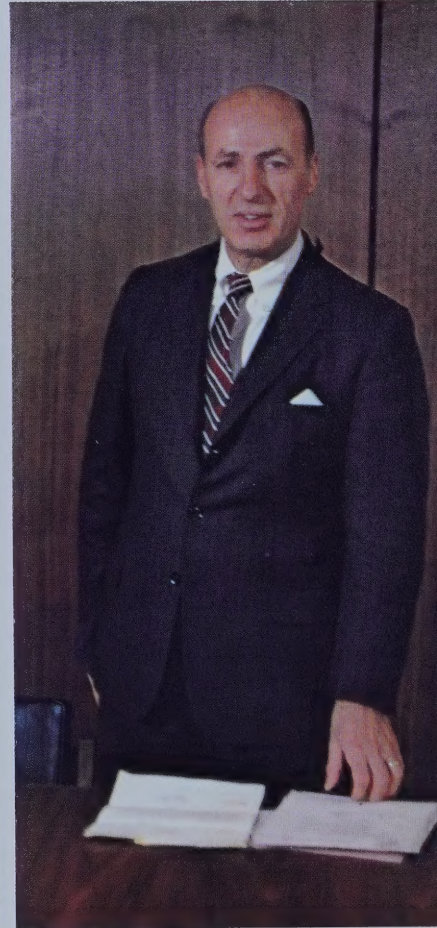
Whatever future developments may bring, Bache remains firmly committed to the time-honored principles of integrity and dedication to the interests of its clients by which the firm has always been guided.

This heritage forms the cornerstone of Bache's objectives for the years to come, as Bache continues in its established role of serving the interests of free enterprise with integrity and professionalism.

John E. Leslie
Chairman of the Board and
Chief Executive Officer



Harry A. Jacobs, Jr.
President



Edward I. O'Brien
Chairman of the Executive Committee



Robert C. Hall
Vice Chairman of the Board and Treasurer



Frank A. Digaetano
Executive Vice President, Controller and
Vice Chairman of the Finance Committee



Brokerage

Domestic Branches

Channeling a continuous flow of the latest market information and investment advice to clients is one of the most valuable functions performed by the financial community. And this essential service assumes an even greater significance in areas apart from major financial centers where informational sources are less available.

Bache has a North American communications and service network consisting of more than 90 offices in the United States and Canada staffed by some 1,700 trained registered representatives and backed by a supporting organization of more than 3,500 men and women.

In-house training is an important part of the Bache operation. Representatives joining the company without previous experience in the investment field undergo an intensive six-month indoctrination program.

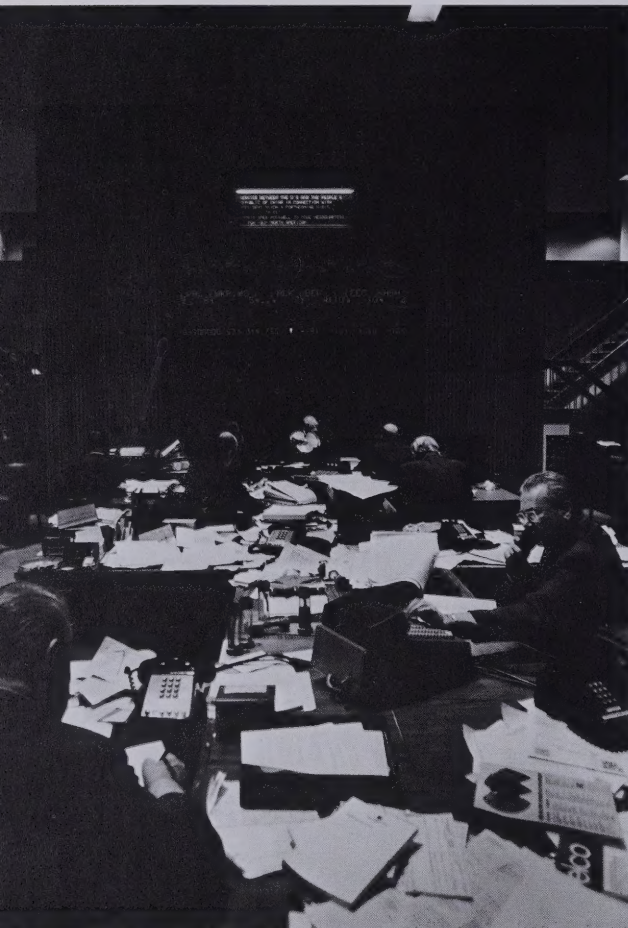
Branch managers too are given ongoing training to keep them informed of new financial and investment developments. All personnel are kept abreast of current trends and techniques through a series of conferences, seminars and workshops in various parts of the country.

An important aspect of the Bache operation is that branch managers do not engage in transactions for personal commission income and thus are able to devote their full time to administration of their branch, supervision of registered representatives and other personnel and guidance of customer services.

The network's field operations are directed by a group of regional vice presidents attuned to the nuances and needs of Bache's individual marketing territories. This familiarity also permits feedback of important marketing and other pertinent information from branches to various departments in New York headquarters.

The entire complex is devoted to providing each client, retail or institutional, large or small, the benefits of Bache's total resources. For example, clients' investment decisions can be guided by recommendations of the firm's U.S. and Canadian Research Departments through a variety of Bache publications, private newswires, lectures and personal communication with registered representatives.

The nation's second largest retail brokerage firm, Bache has a far-flung distribution network composed of more than 90 branch offices in the United States and Canada.



Branch personnel can also provide assistance in investment banking, tax shelters, commodities, fixed income investments, options and other areas of the firm's broad spectrum of services.

A number of Bache's registered representatives specialize in servicing institutions. Many are located in the firm's seven major-market Institutional Centers located in New York, Boston, Chicago, San Francisco, Philadelphia, Atlanta and Los Angeles. Institutional registered representatives are also in some 30 additional cities across the country serving their regional area.

Supplementing the efforts of Branch staff members, offices are supplied with modern communications and order-processing equipment. Bache's recently developed unique BACOM (Bache Communications and Order Match) system permits Branch transactions to be completed with exceptional speed and accuracy.

These technical competences, combined with the individualized personal service available throughout the Bache Branch system, are designed to enable clients anywhere in the world to realize short- and long-term investment objectives to good advantage.

International Branches

The increasingly international character of world security and commodity markets presents an important challenge to American financial institutions. The growth of multinational corporations, a developing interest overseas in U.S. securities, and a general rise in capital movements throughout the world make the need for effective financial services on a global scale more important than ever before.

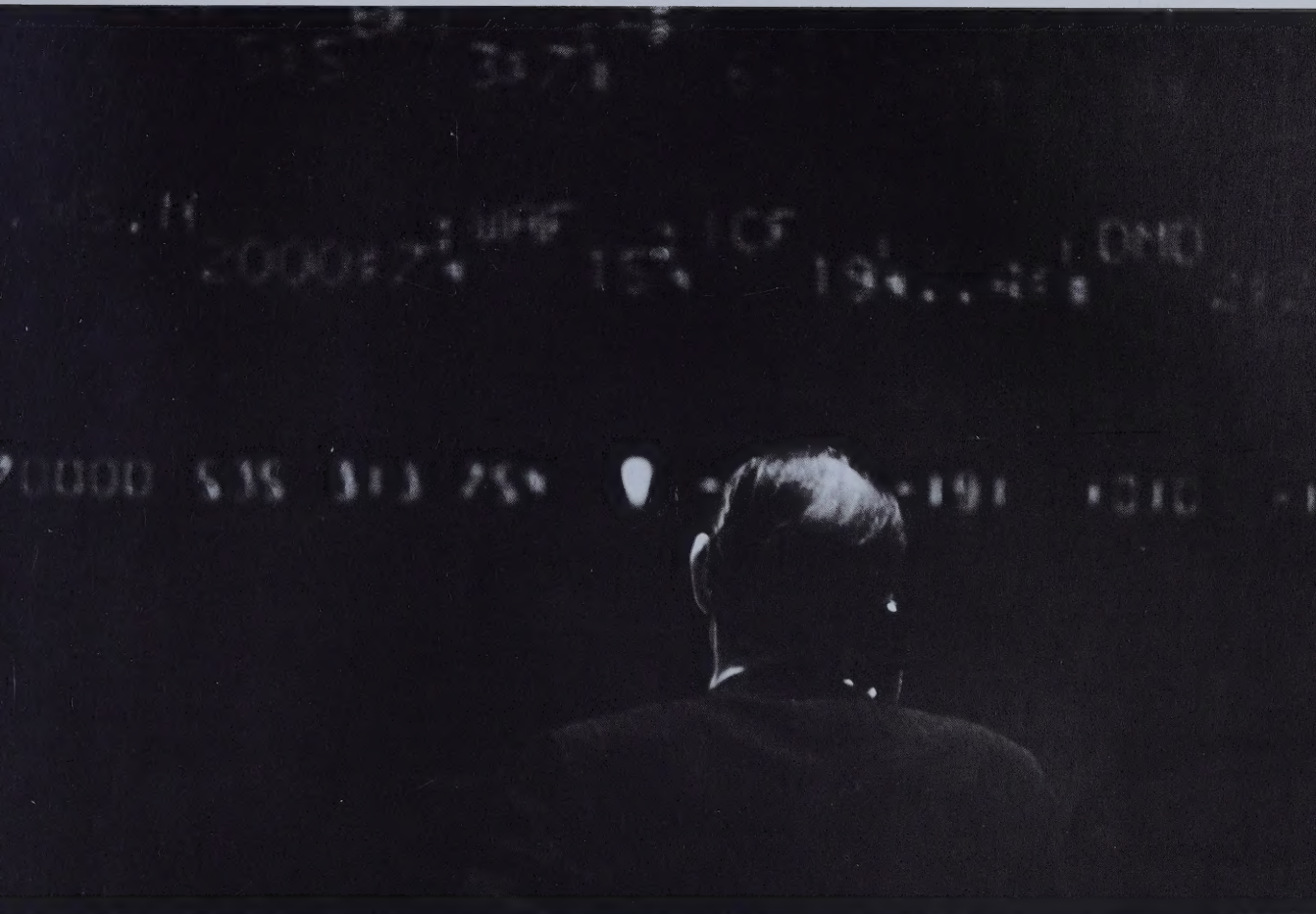
With long-established contacts and facilities abroad, Bache today is a significant factor in international brokerage activities.

Based in New York, Bache's International Division controls far-flung distribution and communications channels integrated by fully equipped offices in London, Paris, Geneva, Amsterdam, Lugano, Frankfurt, Hamburg, Munich, Rome, Milan, Hong Kong and Beirut. This network is also convenient for Bache clients who travel all over the world.

In London, the firm's overseas communication center, facilities have been substantially expanded to serve a growing number of clients, and also to headquarter Bache's international underwriting operations.

With continuous informational exchange on an almost around-the-clock basis, order handling and execution are accomplished throughout the system by means of the latest communications devices. These include trans-Atlantic teletype channels, a complete newswire system, electronic quotation equipment in all

To support the personal efforts of Bache employees, branch offices throughout the country are supplied with the latest communications and order-processing equipment.



offices and direct lines linking the entire network. In almost all cases, international transactions are executed as quickly as domestic.

Encompassing one of the country's largest multinational brokerage operations, the Division is headed by senior officers in New York, working in close cooperation with other officers supervising regional areas abroad. More than 100 registered representatives are backed by a support staff almost twice as large.

Of particular significance is Bache's policy of hiring foreign nationals for overseas offices. While trained in the United States

in advanced American techniques, branch managers are generally citizens of the countries in which they operate, and, therefore, knowledgeable in the nuances of local business conditions and governmental regulations.

All key personnel are multilingual, speaking fluent English in addition to their native tongue and, often, other languages. In this way, Bache provides not only professional expertise, but also the kind of personal service often uncommon in international business.

The firm's extensive commodity operations are also well represented abroad. In addition to a wholly owned commodity corporation, Bache & Co. (London) Ltd., international offices have

The frenetic pace on the floor of the New York Stock Exchange calls for expert timing and sound judgment, two basic qualities of Bache's experienced floor brokers.



Employing the "zone" approach, floor brokers are responsible for only two or three of many available trading posts, thereby gaining highly specialized knowledge.

commodity specialists experienced in handling spot and futures transactions. These representatives handle both hedging and speculative transactions on the commodity futures markets in Europe as well as in the U.S. and Canada.

Through close and continuous coordination of all efforts within these widespread facilities, Bache is able to efficiently meet the growing demands for services in international finance.

Stock Exchanges

An important consideration for investors—individuals and institutions alike—is the accuracy and speed with which a brokerage firm executes transactions on their behalf. An outstanding record of performance in this area often indicates a firm's true level of professionalism.

From its inception, Bache's recognition of this factor has given impetus to a drive for high standards that today places the firm's brokerage capabilities among the best in the industry.

Bache's Floor Department provides a particularly significant contribution to maintaining a smoothly operating brokerage function. With ten members on the floor of the New York Stock Exchange and five members on the American Stock Exchange supported by a substantial staff, Bache is able to provide fast and efficient service to customer accounts of any size.

Virtually all floor brokers are officers of the firm, and their breadth of experience is demonstrated by length of service, which averages more than 15 years in the field. At the same time, with an average age of under 40, this team of professionals displays the youthful aggressiveness so important in this highly charged trading environment.

The Department utilizes the "zone" approach on both major Exchanges, placing responsibility for only two or three of the many available trading posts with each floor broker. Thus, members of the Department acquire highly specialized knowledge that facilitates fast and efficient transactions.

To provide personalized service, a close working relationship is maintained with the Block Trading Department. When a large or unusual transaction is to be processed, it is often routed to the Block Desk which then confers with the floor as to the best way to execute the order.

Daily execution may encompass orders ranging from 100 shares to blocks of 200,000 shares and more. To handle this large volume, Bache employs up-to-date technical resources. Most order-handling systems are fully computerized, especially the most recently developed BACOM system, which means that all orders from Bache branches can be directly transmitted to exchange floors for execution within seconds.



Bache's expanding OTC operations are conducted in a modern trading room with over two dozen individual trading positions supported by advanced communications systems.



In addition to the New York and American Stock Exchanges, Bache is a member of other leading stock exchanges such as the Pacific Coast Stock Exchange, the Midwest Stock Exchange, the Philadelphia-Baltimore-Washington Stock Exchange, the Toronto Stock Exchange, the Montreal Stock Exchange and the Boston Stock Exchange.

Combining experience with automated facilities and skilled personal attention, Bache's Floor Department provides retail and institutional clients of all sizes with speed and accuracy in the execution of their transactions.

Over-the-Counter

Making markets in over-the-counter securities is a major activity for broadly diversified investment banking firms.

Today, OTC trading is one of Bache's fastest growing areas of involvement. During the past three years, the number of equity issues for which Bache's OTC Department makes primary markets has grown to well over 100 domestic and foreign securities. Present plans call for continued expansion.

A separate team also executes agency transactions involving all securities for which Bache does not currently make primary markets.

Headquartered in New York, the OTC Department operates full-service centers in Chicago, Louisville, Dallas and Los Angeles, with additional units under consideration. While equipped to handle all OTC transactions, these centers specialize in stocks with strong regional interest.

All operations are conducted in thoroughly modern trading rooms. The New York office serves clients through more than two dozen individual trading positions, each supported by an up-to-date communications system including private wires to a large number of brokers, dealers and banks.

Bache has also significantly improved its OTC capabilities and services to clients by subscribing to NASDAQ, which provides through a video system the latest available quotations of all subscribers making a primary market in the quoted security.

Members of the Department are carefully trained with experience ranging up to more than 20 years in the field. The OTC staff maintains close communications with other departments, most prominently with Research, which supplies a continuous flow of information on those securities for which Bache makes markets and on issues recommended for market making.

The OTC Department includes the activities of the firm's Option Section which specializes in puts and calls and straddles mainly for the firm's customers. It also provides advice on domestic and international option transactions and operates a conversion account. This activity enables customers to buy and sell options. The Option Section also services writers of option paper for both retail and institutional accounts.

This field is receiving increased recognition with the proposed establishment of the Chicago Board Option Exchange. It is expected that this new Exchange will be operational in late 1972. A senior officer of Bache has become a member of its board.

This OTC trading expertise maintains Bache's position as a prominent market maker in a wide range of U.S. and foreign securities.

Mutual Funds

During the past two decades, mutual funds have been among the fastest growing segments of the investment market. In line with its policy of providing the broadest range of investment opportunities, Bache in 1947 was one of the first member firms to establish a separate Mutual Fund Division.

Branch office staffs include mutual fund specialists. Moreover, every registered representative receives training in this investment medium. The firm also provides a recommended list of mutual funds based on its own research.

Bache's prominent position as a leading underwriter of new issues of mutual funds is evidenced by the fact that the firm managed the largest open-end mutual fund underwriting and co-managed the largest closed-end mutual fund underwriting, with dollar volumes of \$270 million and \$260 million respectively. Bache also co-managed the underwriting of the largest closed-end fund dealing in Japanese securities.

More recently, the firm managed a \$120-million offering of a new major bond-debenture fund, retailing itself 3.6 million shares for a dollar volume of more than \$44 million. Bache also managed a \$42-million special income fund, retailing itself over 2.2 million shares with a dollar volume of almost \$20 million.

The Division also offers tax shelter programs tailored to the specific requirements of investors.

Fixed Income Securities

The underwriting, trading and marketing of fixed income securities represents an intricate sector of contemporary finance. Projects in this field are often unique and challenging, requiring individual and often innovative techniques for successful completion.

Bache's Fixed Income Securities Division is responsible for a variety of the firm's activities. Primary underwriting is done in tax-exempt securities of states, municipalities and other political subdivisions; Government National Mortgage Association (GNMA) guaranteed certificates; Government and Agencies Securities; and Municipal Investment Trust Funds (MITF). Trading markets are also made in these securities and in corporate bonds for retail and institutional customers.

Overall, this is one of Bache's fastest growing areas. The Division has set new volume records during each of the last three years, placing Bache in a prominent position in this field.

In the past fiscal year, for example, the Division marketed an aggregate of more than \$2.5 billion in fixed income securities, an approximate increase of 100 per cent over the preceding 12-month period.

During this time, the Municipal Department marketed bonds with a principal amount of more than \$700 million. The firm participated in over 360 new issues with a combined par value of well over \$7.5 billion, amounting to about 30 per cent of all new municipal offerings for the period.

The staff of Bayrock Advisors, investment counselors and portfolio managers, bases its decisions on research information from a wide variety of Wall Street sources.



An expanding staff now numbers nearly 100, including many officers of the firm. These specialists provide individual and institutional clients with the knowledge and attention needed to operate effectively in this complex investment environment.

Asset Management

The increasingly complex nature of modern investment situations has led many investors of all types to employ the skills and experience of professional portfolio managers.

In order to provide a full range of services in this area, Bayrock Advisors, Inc., a wholly owned subsidiary of Bache & Co. Incorporated, was organized in 1969. Today, Bayrock acts as investment counselor and portfolio manager to a growing number of institutions, corporations and large individual investors on a discretionary or advisory basis.

In addition, Bayrock serves as investment advisor to mutual funds including Bayrock Fund, Inc., Bayrock Growth Fund, Inc. and Centurion Fund, Inc.

Bayrock also acts as investment advisor to the Bache Profit Sharing and Benefit Plan and to the Bache Pension Plan.

Individual portfolios of clients are designed to meet investment objectives and, where appropriate, a blend of equity and fixed income securities is recommended to provide the necessary diversification to meet clients' specific requirements.

In addition to personal judgment gained from long experience, the organization's professional staff of portfolio managers and investment counselors base decisions on a steady input of information not only from Bache's Research Division, but also from other Wall Street firms. As a manager of assets acting on the basis of its independent judgment, Bayrock is in a position to utilize research findings from various sources in the financial community.

In its first year of operations, the GNMA Department participated in 75 issues, retailing securities in excess of \$600 million, which places Bache among the leaders in this market.

Another growing area of involvement is the Municipal Investment Trust Fund, in which Bache is currently one of the industry's largest participants. During the past fiscal year, the Division managed or co-managed 18 such funds aggregating \$380 million.

Other Division activities include the handling of Negotiated Revenue Bond underwritings, of which Health, Education, and Religious Organization (HERO) securities are a rapidly growing part. The firm also acts as a fiscal advisor to a substantial number of municipalities.

Monitoring hundreds of securities, the Research Division provides Bache and its clients a steady flow of detailed information on potential investment opportunities.



Research

Research is the key factor in making investment decisions and involves the collection, evaluation and interpretation of raw data, followed by projections and specific recommendations to buy, sell or hold securities.

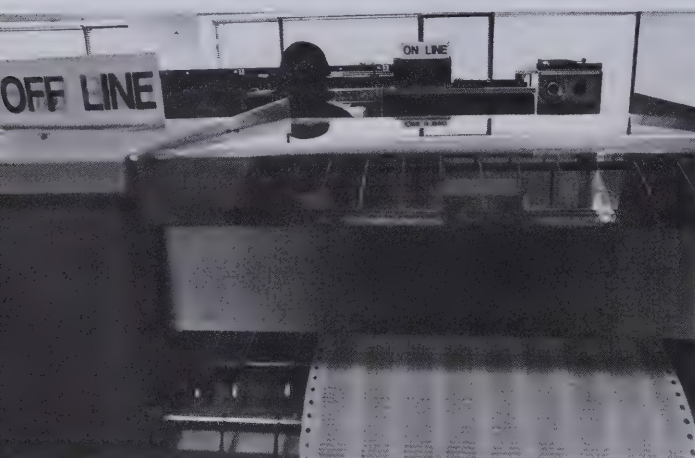
Thus, Bache's Research Division has played a major role in establishing the firm's current stature in securities brokerage and investment banking.

To fulfill its primary functions, the Research staff maintains constant surveillance of a wide array of companies in all types of industries, seeking out potential investment opportunities for the firm's clients, both retail and institutional.

Closely monitoring several hundred domestic and Canadian securities, the Division bases its specific decisions on a broad review of many different investment factors. It also follows Bache-managed issues and companies for which the firm acts as investment banker.

Relevant economic, social, governmental and market factors are combined to form a fundamental framework within which individual recommendations are developed. This underlying investment strategy is systematically analyzed to help ensure its continuing validity in light of current and anticipated conditions.

When formulating recommendations, the Research staff is able to draw upon a storehouse of pertinent data retrieved by computerized electronic devices.



Of the officers and staff of the Research Division, over half are securities analysts, many with advanced degrees, and technical analysts, portfolio analysts and economists. A substantial number of this group have more than 10 years of experience in the industry.

Utilizing modern research techniques, most of the firm's analysts devote their full attention to a limited number of industries. As a result of this specialization, clients are offered investment advice based on considerable experience. Analysts are also exposed to the combined thinking of a group of senior personnel via Bache's Investment Policy Committee which meets bi-weekly.

In the belief that nothing can adequately replace on-the-scene investigation, the Division requires that its personnel do considerable work in the field. Thus, it is estimated that Bache analysts spend approximately one quarter of their time in direct contact with companies, and perhaps equal time visiting institutions.

Information is communicated to clients through Bache's private newswire installations, seminars, periodicals and special reports, as well as regular personal contacts. In addition, the Research staff often conducts lecture programs for the public.

The entire Bache branch network is kept abreast of Research recommendations and important industry developments through the communications system of the Division's News Desk.

Specific issues are analyzed in a series of individual releases called *Bache Research Report*. In addition, analyses of several hundred actively followed issues are updated quarterly in the *Bache Reference List*. A weekly publication, *Monday Morning*, provides new investment ideas and follow-up information on previously analyzed securities.

Other publications include the weekly *Bond Bulletin* and *Bache Technical Service*, regular institutional studies, retail studies and various other individual reports.

The Division's Information Center offers a supply of information on those stocks not actively followed by the firm's analysts. Depending on market conditions, the Center handles 300 to 800 inquiries daily.

Analyses and projections of individual issues and market trends, based on technical disciplines, are furnished by the Technical Analysis Department. Technical findings and recommendations are communicated throughout the Bache system by newswire, direct telephone links, personal presentations and various publications.

The *Bache Technical Service*, for example, provides a weekly review of approximately 100 issues. The bi-weekly *Bache Computerized Technical Review* is designed to aid large, institutional clients achieve intermediate-term investment objectives.

Another Research service is portfolio analysis, providing advice for selected accounts.

In close support of these specialized activities, the Research Library maintains some 15,000 files on varied types of corporations, a large selection of market-related reference materials, current periodicals and back issues of Bache publications. In addition, the Library supplies a back quotations service.

An average of 250 inquiries are fielded by the Library staff on a daily basis.

Another support activity is represented by the Statistical Section, responsible for coding individual, institutional and pension fund portfolios for computer processing, and furnishing EDP tabulations on portfolio holdings.

In addition to its New York headquarters, the Division operates a research center in Toronto staffed by a group of senior analysts. The Canadian Research Department offers various services geared to the specific needs of the Canadian market, and to U.S. and overseas investors interested in Canadian securities.

A weekly market commentary from Canada is disseminated to many Bache offices and clients through the Division's News Desk. Among other publications are in-depth industry reports and the monthly *Canadian Focus*, which supplies coverage of up-to-date economic and market conditions, investment recommendations and other pertinent research data all relating to the Canadian economy.

Bache considers that one of its most valuable contributions to investors is the individual analysis and personal judgment it brings to each investment recommendation.

Institutional

Block Trading

The expanding volume of institutional sales during the past decade has had a dramatic impact on the direction of the brokerage industry. For example, institutional transactions today represent close to half of the trading volume on the New York Stock Exchange.

In order to serve this growing market, Bache has significantly enlarged and upgraded its institutional facilities and services.

To further Bache's goal of providing efficient service to institutions and large investors, the Block Desk is managed by an experienced officer of the firm assisted by a team of traders and support personnel.

Executing the large number of transactions handled daily by the Department requires rapid decision making and follow-through, which is facilitated by a wide range of sophisticated communications equipment.

The latest ticker and quotation devices, as well as access to two major institutional network systems, keep the staff abreast of industry and market developments. In addition, direct telephone lines link Bache with major financial centers, institutions, market makers and exchange floors.

Thus, the Block Trading Department is in constant contact with institutions all over the country, providing investment centers with a continuous flow of market information.

Execution of all orders is individually structured in an endeavor to obtain the most advantageous result for the client. Often, Bache's own capital is utilized to position all or part of a block of securities for the firm's account to bring about a transaction.

Frequently, the firm's floor brokers on the New York Stock Exchange and on the American Stock Exchange are consulted to help ensure a proper course of action.

This blend of facilities enables Bache to serve the demanding requirements of today's institutional investors.

Institutional Sales

In keeping with the overall growth of the institutional market, Bache experienced a sizeable increase in institutional sales during the past year. Advances made in block trading and underwriting were aided by the efforts of the firm's Institutional Sales Department.

All institutional sales activities are under the direction of Bache's Institutional Division headquartered in New York. In other major financial cities such as Boston, Chicago, San Francisco, Philadelphia, Atlanta and Los Angeles, an Institutional Center is maintained, staffed by institutional registered representatives handling equities, corporate bonds and state and municipal securities. In addition, some 30 other Bache offices throughout the country have available institutional registered representatives to service the surrounding area.

There are some 85 representatives assigned exclusively to institutional accounts. This coverage allows for individual attention essential to meeting clients' specific requirements for such services as syndicate offerings, research, portfolio management and handling of blocks.

To maintain high standards, all institutional registered representatives try to anticipate and fulfill the exacting requirements of this important investment clientele. Training emphasizes study and interpretation of Research Division findings in order to develop each representative's ability to utilize this information in the best interests of the firm's clients.

Concentrating efforts on major institutions in the United States, Canada and abroad, representatives serve leading mutual funds, insurance companies, bank trust departments, savings banks, investment advisors, pension and welfare funds, corporations, universities, savings and loan companies and credit unions and other institutions.

The firm's institutional registered representatives are supported by an expanding Block Trading Department, increased institutional research capability and the substantial volume of issues underwritten in both corporate and governmental areas. They also utilize the recommendations of Bache's Investment Policy Committee and receive advice from the Pension and Welfare Department. The OTC operation and floor brokers also supply their support.

Pension and Welfare Funds

During the past year, the assets of private, self-insured pension funds are estimated to have reached some \$120 billion, with new capital being added at the rate of \$10 billion annually. Current trends indicate accelerated growth with the result that total assets of these funds could exceed \$200 billion during the latter part of the decade.

Bache has been increasingly active in pension fund investment management since 1958, and pioneered the development of a separate department specializing in jointly administered, union-management pension and welfare funds.

Today, Bache's Pension and Welfare Fund Department provides a wide variety of services to some 170 separate funds aggregating more than \$1 billion in invested assets. The Department's staff of portfolio managers places emphasis on maximum long-term returns consistent with client requirements. Thus, all investment action is based on prudent but flexible strategies geared to a client's specific wants and objectives.

To help serve institutional clients effectively, direct telephone lines link the Block Desk with major financial centers, market makers and exchange floors.



The Department's management lends constant guidance and supervision to portfolio managers, and systematically reviews performance figures and the composition of portfolios.

In addition to asset management and portfolio review services, the Department also monitors the investment performance of funds managed by other advisors.

These services have assumed increasingly significant dimensions in the area of state and local government retirement funds, which Bache recognizes as one of the fastest growing segments of the retirement fund sector.

In support of its efforts, the Pension and Welfare Department maintains close contact with other divisions and departments within the firm, notably Block Trading, Underwriting, Corporate Finance and Research. The information and analysis provided by Research, for example, keeps portfolio managers abreast of developments in the economy and a large group of industries and individual issues.

Arbitrage

Liquidity is an important characteristic of a sound market, and arbitrage helps provide this vital element of the marketplace.

Bache's Arbitrage Department is an active and important part of the company's operation. At any one time, the Department may be actively engaged in as many as 20 to 30 arbitrage situations and may have more than 50 potential situations under scrutiny.

These operations include "risk" and "riskless" arbitrage, involving mergers, tenders, liquidations and other corporate reorganizations, as well as rights offerings, convertible securities transactions and premium hedges.

In line with the Department's history of growth, the firm commits significant amounts of capital to this activity.

As in all specialized areas, the Department's record is due to the skill and experience of its personnel. Timing, judgment and trading expertise of arbitrage personnel are supplemented by the efforts of research analysts specially trained for arbitrage.

Members of the Investment Banking Division work closely with corporate clients in order to develop financial strategies that will meet long-range goals.



Investment Banking

In the years ahead, many billions of dollars will have to be raised in order to fulfill the need for increased capital for commerce and industry. With its far-flung distribution system, ability to market securities and a skilled technical staff, Bache is in an excellent position to take advantage of the resulting trend toward broad distribution of corporate equity and debt securities.

Thus, during the last several years Bache has emphasized the expansion of its investment banking functions, with particular stress on negotiated and competitive public offerings. Bache's

continuing growth in this field results from the efforts of the Underwriting Division, which encompasses the Corporate Finance and Syndicate Departments.

The Corporate Finance Department is responsible for the development of corporate relationships, including detailed investigation of companies which desire to raise substantial capital; the creation of appropriate financial programs for corporate clients; and assistance in the preparation of documents required in financing, including registration statements.

The Syndicate Department develops the distribution plans for issues underwritten by Bache and other investment bankers. It arranges groupings of broker-dealers to market issues whose underwritings are managed by Bache, and effects the distribution of underwritten securities through Bache's domestic and international branch office system.

The past fiscal year was Bache's most successful in terms of public offerings. The firm managed or co-managed over 40 negotiated and competitive offerings, and participated in an additional 730 offerings managed by other firms. Corporate underwriting commitments totalled more than \$600 million.

The dollar amount of public offerings of corporate securities, including mutual funds, managed or co-managed during the past fiscal year approximated \$780 million.

Bache recognizes that its wide range of retail and institutional customers represent diverse interests in different types of investments, ranging from conservative, high-grade debt issues at one extreme, to semi-venture capital speculative offerings of emerging growth companies at the other.

As corporations reach progressive stages of maturity, their capital needs undergo changes, and appropriate financings must be created to tap various sources of investment funds.

The product mix of issues Bache has offered to the general public has included common stocks, rights offerings, limited partnerships, real estate investment trusts (REIT), convertible debentures and high-grade bonds.

Through long experience, the Syndicate Department has developed the ability to appraise individual issues and devise marketing plans to attract appropriate investor groups. The knowledge gained from two-way communications between corporate issuers and retail and institutional investors through the medium of the firm's branch system, enables the process of raising capital to be particularly responsive to ever-changing market conditions.

In addition to public offerings, the Corporate Finance Department works closely with corporate clients to develop long-range financial strategies. The Department assists corporations in merger and acquisition programs, commercial bank relationships, and arranges primary market making in their securities in connection with Bache's OTC Department. Members of the Underwriting Division also maintain contact with other departments in order to keep abreast of current industry developments.

Research, for example, furnishes detailed investment information on a regular basis. Research also independently follows each corporate client's activities, disseminating published information and periodic analyses of performance.

Corporations working with Bache have available the broad information channels of the branch office system plus other aspects of Bache's activities, including the efforts of the Pension Fund Department, the Commodities Division, the Municipal Revenue Department and Bayrock Advisors.

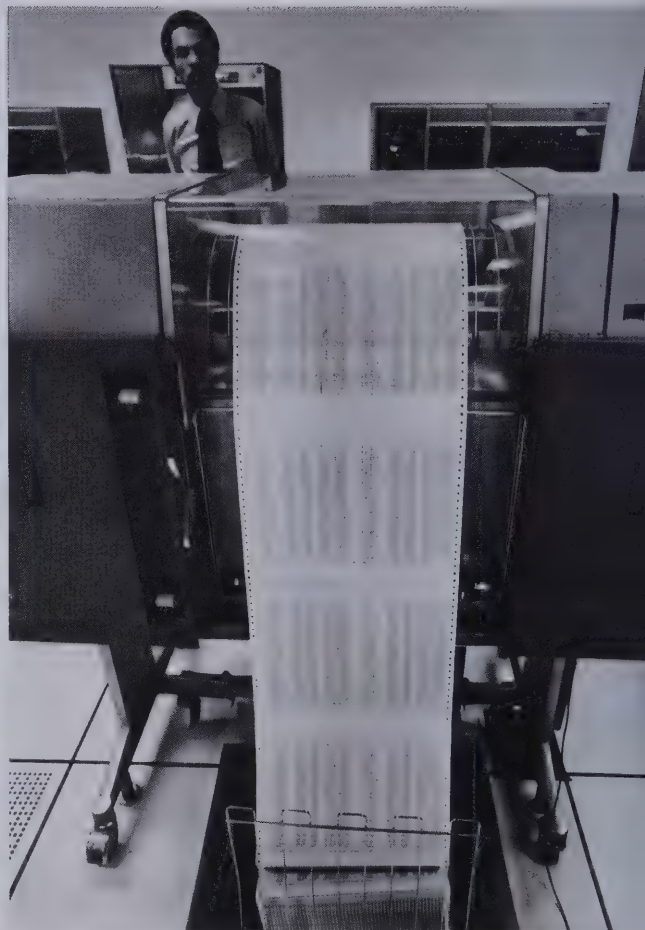
In the years ahead untold billions of dollars will also have to be raised in the public sector. In this area of investment banking, namely, the financing of the burgeoning needs of municipalities, state governments, U.S. Government agencies and related organizations, Bache has established a position of leadership in the industry. In these government-oriented areas of the investment banking field, which are described in the Fixed Income Securities section of this brochure, the firm also utilizes all of the resources of its branch network and Institutional Sales Department, plus its sophisticated communications systems.

Commodities

During the past 10 years, commodity futures markets have experienced dramatic growth which has more than doubled total trading volume. The establishment of trading markets in a wide variety of trading vehicles, coupled with a concerted drive by exchanges and member firms to highlight commodities, provide reasonable expectation for even further expansion in this area.

Bache's Commodity Division has enabled the firm to remain abreast of developments in the field throughout the years. From its earliest beginnings Bache has been a major factor in the commodity futures markets, holding memberships on all major commodity exchanges, and was one of the first firms to conduct transactions on an international scale.

Bache's Commodity Division utilizes a computer-controlled communications network to transmit orders from all offices directly to the floors of major exchanges.

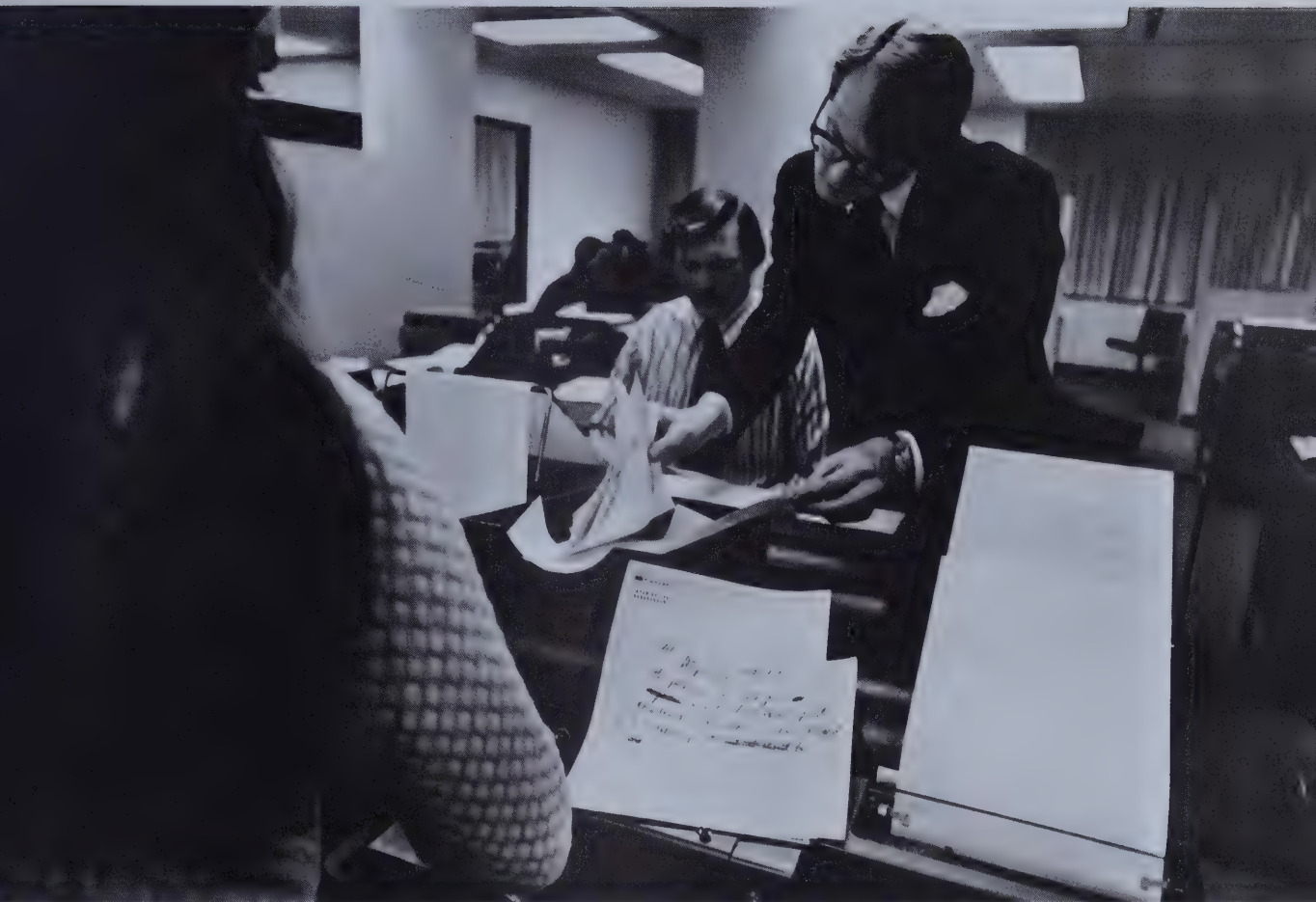


The Division is constantly in the forefront of the development of new markets, and sends specialists throughout the country and abroad explaining to trade interests how new markets can be used in the normal course of their business.

In addition to the New York headquarters, the Commodity Division maintains a full-scale service center in Chicago and London staffed by more than 35 specialists. This staff furnishes topical news and fundamental and technical guidance on commodity markets to offices throughout Bache's global system.

The firm's advanced communications network, which includes full-speed, intercontinental teletype circuits, private telephone lines as well as WATS circuits, provides an extremely fast means of informational exchange. Orders are transmitted from branch offices directly to the floors of major exchanges via a computer-controlled communications network.

Commodities specialists compile and disseminate topical news along with fundamental and technical guidance on commodity markets to offices throughout the world.



The Division benefits from the experience and judgment of 15 Bache officers, who hold an aggregate of 35 memberships on major commodity exchanges for the firm, and currently occupy elective positions on various exchanges ranging from president to chairman of key committees.

This wealth of know-how and technical capabilities aims to fulfill the exacting standards of both commercial hedgers and speculators. Commodity personnel, with backgrounds in a wide range of industries, offer advice to producers, processors, importers, exporters and various middlemen in the techniques of minimizing adverse effects of inventory price movement by effective use of hedges in the futures markets.

Research analysts, utilizing a combination of time-tested fundamentals and the latest technical systems, maintain a continuity of background information and trading recommendations which are disseminated to clients through the firm's registered representatives and Bache's various commodity publications.

An important additional facility is the Bache Metal Department, which was organized 26 years ago and is presently a very important dealer in the U. S., acting as merchants in non-ferrous, precious and rare metals. This Department develops both buying programs and hedging operations for major U.S. corporations.

Since the metal traders are in daily contact with primary and secondary producers of metals, they are able to provide sophisticated advice to Bache's clientele on trends in the various metal markets.

Plans are now being developed to use commodity futures techniques in the trading of certain financial contracts. To illustrate, the Chicago Board Option Exchange is in the final stages of being organized to provide a market for trading in puts and calls of securities. A foreign exchange futures market is also being organized by the Chicago Mercantile Exchange where futures transactions may be executed in selected foreign currencies. Bache officers are participating in these developments.

Operations

The work performed in the operations areas of an investment firm is largely conducted "behind-the-scenes". These activities, however, are of crucial importance to the welfare of the investing public and the success of any Wall Street firm, and their importance cannot be overemphasized.

The accuracy, efficiency and speed with which brokerage and other investment transactions are processed represent capabilities of utmost significance to clients of all types. And no matter how effective other units may be, the ultimate responsibility for a smoothly run brokerage and trading function rests solidly with operations.

Because Bache handles one of the largest overall volumes in the industry, the Operations Group, consisting of several divisions, plays a major role in maintaining the firm's professional stature.

During the past year, this Group processed over 2.2 million separate securities and commodities transactions with a total dollar value in excess of \$13 billion.

Fully consolidated, the Group occupies 240,000 square feet in the New York headquarters building. Operations are carried out by some 1,400 employees in New York under the direct supervision of 25 managers directed by nine major executives of the firm, and by approximately 1,300 operations and other employees located throughout the branch system.

Personnel of the various Operations Divisions maintain constant contact with all other divisions and departments in New York, as well as each domestic, Canadian and foreign branch. In addition, direct wires link Bache with leading financial institutions in the United States.

The Bache computer-controlled communications network is a vital part of the Group's client services, and includes a Univac 494 computer, over 76,000 miles of cable and almost 700 terminals. A second Univac 494 computer provides standby facilities.

In addition, Bache employs 13 other computers of various types and sizes, representing one of the most sophisticated EDP systems in the industry. This advanced precision equipment represents an investment of some \$12 million.

Included is the exclusive BACOM (Bache Communications and Order Match) system, which operates on a full, realtime basis to provide constant communications linkage between offices and exchange floors. This unique system can process more than 12,000 listed orders per hour and automatically route them to the proper floor locations. It then electronically matches executions with original orders, immediately transmitting notification of the trade to the branch serving the client. BACOM can determine the status of over 100,000 open orders at any given time.

Bache's Operations Group blends competent people, advanced equipment and a systems approach to ensure its clients sound efficiency in order-handling and processing securities transactions.

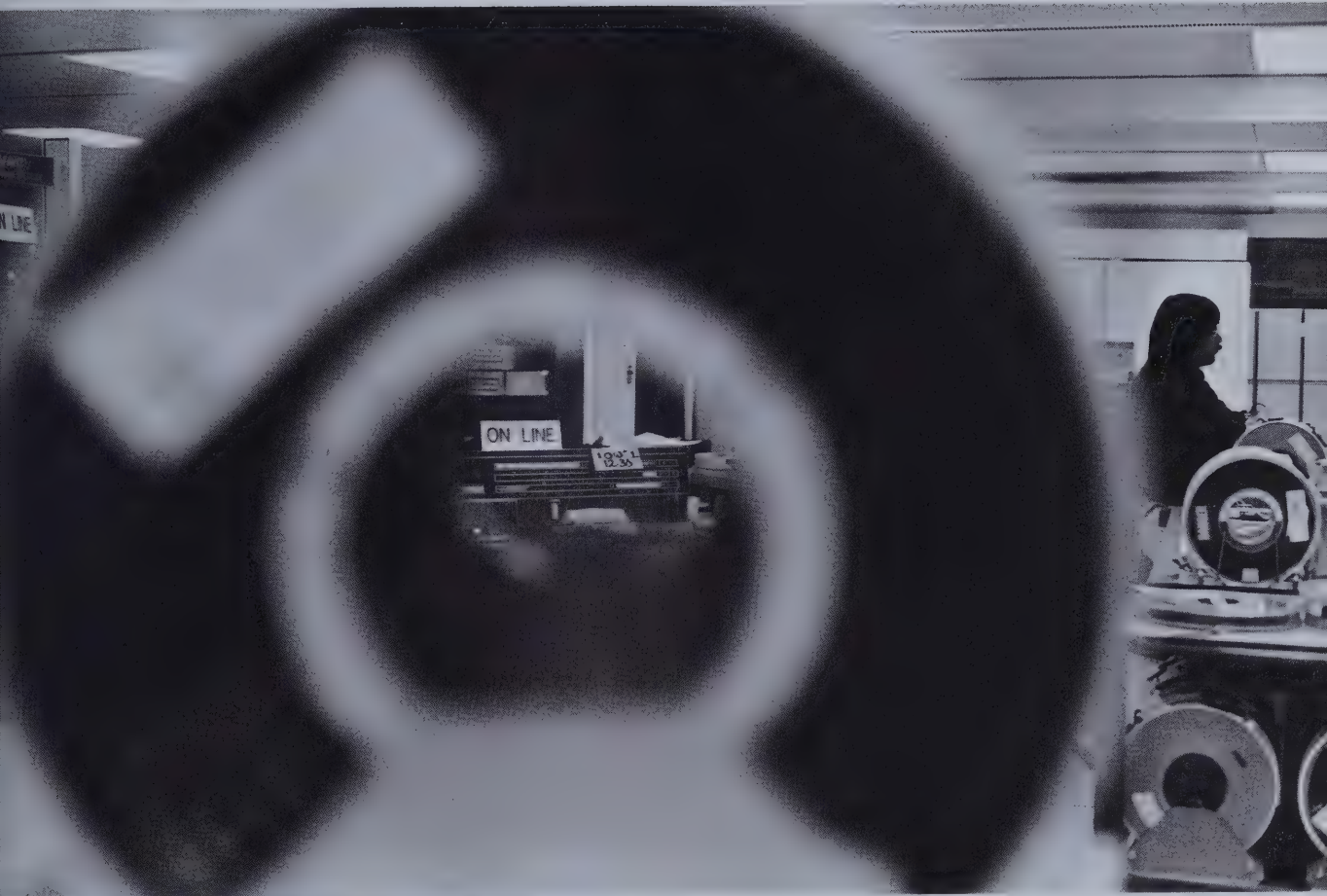
The performance of a variety of internal corporate functions greatly influences an investment firm's ability to operate efficiently on a day-to-day basis.

Many of these administrative functions are provided by the Corporate Affairs Division, which performs control and compliance functions through the facilities of the Law Department, Office of the Secretary, Trading Control Department and Internal Audit Department.

Meeting regulatory compliance requirements is of vital importance, and these support activities are instrumental in the conduct of the business in accordance with the highly complex series of laws, rules and regulations which govern the securities industry.

In addition to regulatory compliance, the Corporate Affairs Division's staff handles internal legal affairs, broker-dealer registrations, certain reviews of customer transactions and stock exchange relations.

To maintain speed and accuracy in all order-handling activities the Operations Group employs one of the industry's largest banks of sophisticated computers.



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451 North Bedford Drive
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Encino, California 91316
15720 Ventura Boulevard
Tel: (213) 872-1930

Los Angeles, California 90014
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655 South Spring Street
Tel: (213) 623-1311

Palo Alto, California 94301
21 Palo Alto Office Center
Tel: (415) 328-0110

San Francisco, California 94104
Wells Fargo Building
44 Montgomery Street
Tel: (415) 981-0440

San Jose, California 95128
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Tel: (408) 246-6000

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Denver, Colorado 80217
Denver Hilton Hotel
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Tel: (203) 527-3261

New Haven, Connecticut 06508
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Miami, Florida 33132
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Mercantile Bank Building
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Tel: (305) 531-1161

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333 Arthur Godfrey Road
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Tel: (305) 655-7170

St. Petersburg, Florida 33701
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Tel: (813) 896-5671

Surfside, Florida 33154
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Georgia Building
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Chicago, Illinois 60611
875 North Michigan Avenue
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St. Joseph Bank Building,
Suite 200
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Tel: (219) 289-7192

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Louisville, Kentucky 40202
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379 Iyanough Road
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Tel: (313) 965-6920

Southfield, Michigan 48076
Space I-13, Northland Center
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Minneapolis, Minnesota 55402
Soo Line Building
Tel: (612) 332-7111

Missouri

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TenMain Center
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St. Louis, Missouri 63102
434 Mansion House Center
Tel: (314) 436-3800

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Camden, New Jersey 08103
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Newark, New Jersey 07102
10 Commerce Court
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Paramus, New Jersey 07652
Midland Bank Building
80 East Ridgewood Avenue
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729 Landis Avenue
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New York

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41 State Street
Tel: (518) 436-0881

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New York 11706
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Binghamton, New York 13901
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Bronx, New York 10458
2488 Grand Concourse
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Massapequa Park, Long Island,
New York 11762
4924 Merrick Road
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1407 Broadway
Tel: (212) 524-7600

New York, New York 10017
441 Lexington Avenue
Tel: (212) 697-6400

New York, New York 10021
770 Lexington Avenue
Tel: (212) 752-7700

New York, New York 10001
393 Seventh Avenue
Tel: (212) 524-7520

New York, New York 10020
610 Fifth Avenue
Tel: (212) 586-7040

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77 Clinton Avenue South
Tel: (716) 454-6600

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Tel: (518) 346-6101

Syracuse, New York 13202
One Mony Plaza
Tel: (315) 422-2131

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Tel: (315) 797-1870

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Tel: (914) RO 1-5050

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Tel: (704) 376-9861

Greensboro, North Carolina 27401
Wachovia Bank Building
201 North Elm Street
Tel: (919) 273-6994

Raleigh, North Carolina 27602
130 South Salisbury Street
Tel: (919) 828-8401

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Akron, Ohio 44308
143 South Main Street
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Cleveland, Ohio 44114
National City—East Sixth Building
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Neil House Hotel
41 South High Street
Tel: (614) 221-1261

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Oklahoma City, Oklahoma 73102
1500 Liberty Tower
Tel: (405) 236-3041

Tulsa, Oklahoma 74103
Home Federal Building
404 South Boston
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Erie, Pennsylvania 16501
Marine National Bank Building
901 State Street
Tel: (814) 453-5021

Oil City, Pennsylvania 16301
36 Seneca Street
Tel: (814) 644-1231

Philadelphia, Pennsylvania 19107
1336 Chestnut Street
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Pittsburgh, Pennsylvania 15222
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The Bache Building
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Tel: (717) 825-7551

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Vaughn Plaza
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107 Mercantile
Continental Building
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Fort Worth, Texas 76102
810 Commerce Building
Tel: (817) ED 5-3491

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Tenneco Building
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San Antonio, Texas 78205
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One Westmount Square
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Toronto 1, Ontario, Canada
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Tel: (416) 860-3000

Vancouver, B. C., Canada
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1075 West Georgia Street
Tel: (604) 683-9242

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Telex: 886631

London, E. C. 3, England*
Plantation House Block A
Fenchurch Street
Tel: 01-623-6691
Telex: 25752

Bradford, England*
Five Wool Exchange
Tel: 26472
Telex: 51334

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Tel: 742-2379
Telex: 22260

Germany

Frankfurt/Main, Germany
Wiesenhuettenstrasse 18
Tel: 26421
Telex: 04-12718

Hamburg, Germany
Neuer Wall 10
Tel: 351781
Telex: 02-12885

Munich, Germany
Ludwigstrasse 8
Tel: 280191
Telex: 05-24420

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Amsterdam, Holland
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Hong Kong

Hong Kong, British Crown Colony
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Telex: 284

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Milan, Italy
23 Via S. Andrea
Tel: 781441-2-3, 701844
Telex: 31448

Rome, Italy
11 Via Parigi
Tel: 480241-5
Telex: 61037

Lebanon

Beirut, Lebanon
Starco Center, South Building
Tel: 252290-1-2
Telex: 858

Spain

Madrid, Spain*
Alcala 32
Tel: 231-65-00
Telex: 27692

Switzerland

1211 Geneva 11, Switzerland
40 Rue du Rhone
Tel: 248215
Telex: 22267

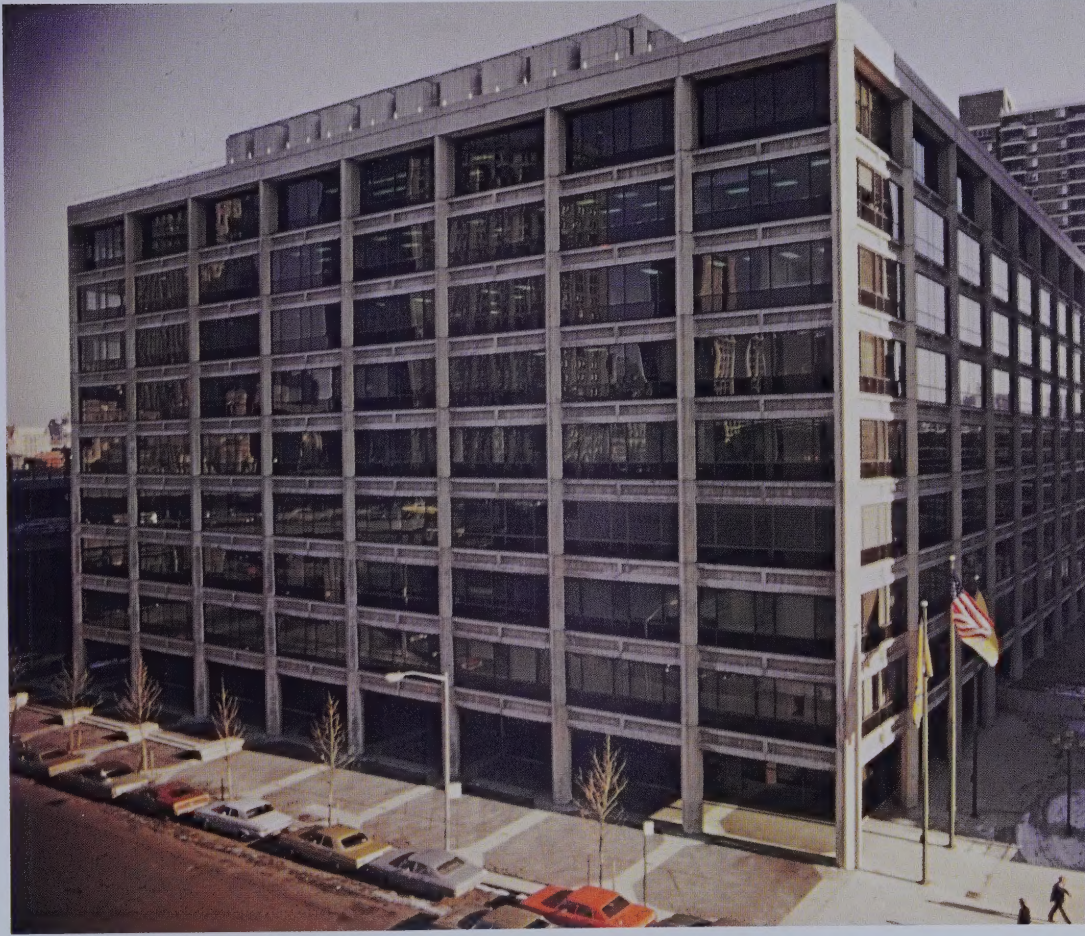
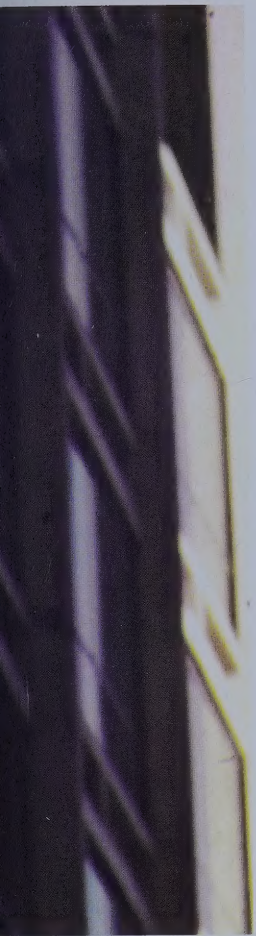
Lugano, Switzerland
Via Peri 18
Tel: 27313-4-5-6
Telex: 79061-2-3

†Sales offices

*Commodities only

The new Bache Building is a streamlined plant in which all divisions and departments work in tandem to produce fully integrated services for clients of all types.





Exchange Memberships

Schedule showing exchanges and associations in which Bache & Co. Incorporated, its affiliates or its officers and directors, individually, are members:

American Stock Exchange, Inc.
Amsterdam Cocoa Terminal Market
Boston Stock Exchange
Canadian Stock Exchange
Chicago Board of Trade
Chicago Mercantile Exchange
Coffee Terminal Market Association of London
Commodity Exchange, Inc.
Dallas Cotton Exchange
Detroit Stock Exchange
Grain & Feed Trade Association of London
Honolulu Stock Exchange
International Commercial Exchange
Investment Dealers' Association of Canada
Kansas City Board of Trade
Liverpool Cotton Futures Market Limited
London Cocoa Terminal Market Association
London Commodity Exchange Co. Ltd.
London Produce Clearing House Limited
London Vegetable Oil Terminal Market Association
London Wool Terminal Market Association
Midwest Stock Exchange
Minneapolis Grain Exchange
Miranda Stock Exchange
Montreal Stock Exchange
National Association of Securities Dealers, Inc.
National OTC Clearing Corp.
National Stock Exchange
New York Cocoa Exchange
New York Coffee & Sugar Exchange
New York Cotton Exchange and Associated Exchanges
New York Mercantile Exchange
New York Produce Exchange
New York Stock Exchange, Inc.
Pacific Coast Stock Exchange
Paris Bourse de Commerce
Philadelphia-Baltimore-Washington Stock Exchange
Pittsburgh Stock Exchange
Rubber Trade Association of London
Stock Clearing Corp.
Sydney Greasy Wool Futures Exchange Ltd.
The London Metal Exchange
Toronto Stock Exchange
United Terminal Sugar Market Association
Winnipeg Grain Exchange

